

T E N N E S S E E   V A L L E Y   A U T H O R I T Y



P O W E R   P R O G R A M

First Quarter Report

2000



During the second quarter TVA announced the addition of new peaking capacity, which will allow TVA to continue offering competitively priced, dependable electricity. By June 2002, we will add 680 megawatts of peaking capacity by bringing eight additional combustion turbines on-line. This is in addition to our previously announced plans to add eight combustion turbines this summer, providing 600 megawatts of peaking capacity.

TVA's net income for the six months ending March 31 was \$112 million, an improvement of \$146 million from the net loss of \$34 million for the same period last year. These favorable results are attributable to a 2.7 percent increase in energy sales over the same period last year reflecting demand growth within the Tennessee Valley region, coupled with a \$59 million increase in pension income.

Everything we do at TVA to improve reliability and lower prices is directly related to our commitment to customer satisfaction. TVA demonstrated its commitment to meet the changing needs of its customers in an increasingly competitive marketplace. In April, we initiated a new "Wholesale Energy-to-Market" program for distributors of TVA power. Also in April, TVA began selling "green power" generated from solar, wind and landfill gas sources through Green Power Switch<sup>sm</sup>, one of three clean energy technologies nationwide to earn national accreditation. TVA is firmly dedicated to supporting and enhanc-

ing the economic prosperity of the Tennessee Valley region. We will remain actively engaged in the national restructuring debate to promote legislation that is fair to all consumers and that fosters reliability, universal access, environmental stewardship, and economic development.



Craven Crowell  
Chairman

#### Financial Highlights (millions)

Three Months Ended December 31	1999	1998
Operating revenues	\$ 1,528	\$ 1,483
Operating expenses	(1,062)	(1,318)
Operating income	466	165
Other income (expense), net	3	(2)
Interest expense	(438)	(452)
Cumulative effect of change in accounting principle	—	217
<b>Net income (loss)</b>	<b>\$ 31</b>	<b>\$ (72)</b>

#### Sales of Electricity (millions - kWh)

Three Months Ended December 31	1999	1998
Municipalities and cooperatives	28,636	27,866
Industries directly served	5,876	5,578
Federal agencies and other utilities	3,144	2,540
<b>Total sales of electricity</b>	<b>37,656</b>	<b>35,984</b>

## Results of Operations

TVA had net income of \$31 million for the first quarter of fiscal year 2000 compared with a net loss of \$72 million for the same period last year.

### Operating Revenues

Operating revenues for the three months ended December 31, 1999, were \$1,528 million compared with \$1,483 million for the same period last year. The \$45 million increase was primarily due to an increase in energy sales of approximately 1.7 billion kWh (or 4.6 percent) reflecting demand growth within the Valley region.

### Operating Expenses

Operating expenses declined \$256 million from \$1,318 million for the three months ended December 31, 1998, to \$1,062 million for the three months ended December 31, 1999. Fuel and purchased power expense increased \$13 million during the period as a result of the increase in sales and generation, while operating and maintenance expenses declined \$55 million primarily due to the timing of outage activities and an increase in the actuarially-determined pension income. In addition, accelerated amortization expense declined \$217 million in fiscal year 2000 due to the non-recurring acceleration of the amortization of regulatory assets in the first quarter of last year (see Accounting Changes below).

### Interest Expense

Net interest expense declined \$14 million for the three months ended December 31, 1999, compared with the same period last year. This reduction primarily reflects a lower level of total outstanding debt during the first quarter of fiscal year 2000 compared with the first quarter of fiscal year 1999.

### 1999 Accounting Changes

Two accounting policy changes were adopted by TVA during the first quarter of fiscal year 1999. TVA changed its accounting policy regarding the method for determining the market-related value of pension assets. This change resulted in a one-time gain of approximately \$217 million and is presented on the Statement of

Operations under the caption "Cumulative effect of change in accounting principle." TVA also changed its accounting policy regarding the amortization of regulatory assets such that periodic amortization amounts may be adjusted as necessary to achieve the annual earnings levels set by the Board of Directors in connection with the rate review and budget approval process. TVA accelerated regulatory asset amortization by a corresponding \$217 million under the new policy in the first quarter of fiscal year 1999.

## Financial Position

Net cash provided by operations increased \$143 million, from \$142 million to \$285 million for the three months ended December 31, 1998 and 1999, respectively. Net income increased \$103 million, from a \$72 million net loss for the first quarter of fiscal year 1999 to a \$31 million net income for the first quarter of fiscal year 2000. Items not requiring cash declined by \$11 million, and working capital requirements declined by \$51 million.

Net cash used in investing activities declined by \$14 million, from \$285 million for the first quarter of fiscal year 1999 to \$271 million for the first quarter of fiscal year 2000. Cash used for construction expenditures increased \$21 million for the fiscal year 2000 reporting period primarily due to the construction of natural-gas combustion turbines for new peaking capacity and capital spending for clean air projects. In addition, cash paid for nuclear enrichment and fabrication services declined \$30 million due to the timing of services received.

Cash flows used in financing activities decreased \$107 million, from \$223 million for the three months ended December 31, 1998, to \$116 million for the three months ended December 31, 1999. In the prior year, TVA reduced debt by approximately \$185 million in the first quarter. For fiscal year 2000, other financing costs increased a net of \$94 million primarily due to premiums paid to redeem approximately \$2 billion of power bonds to take advantage of the favorable interest rate environment.

## Balance Sheets (unaudited)

	December 31 1999	September 30 1999
	(MILLIONS)	
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1	\$ 103
Accounts receivable	545	730
Inventories at average cost and other		
Fuel	174	178
Other	<u>308</u>	<u>307</u>
Total current assets	<b>1,028</b>	1,318
<b>Property, plant, and equipment</b>		
Completed plant	29,651	29,569
Less accumulated depreciation	<u>(8,982)</u>	<u>(8,762)</u>
Net completed plant	20,669	20,807
Construction in progress	830	730
Deferred nuclear generating units	6,321	6,320
Nuclear fuel and capital leases	<u>581</u>	<u>560</u>
Total property, plant, and equipment	<b>28,401</b>	28,417
<b>Investment funds</b>	<b>835</b>	731
<b>Deferred charges and other assets</b>		
Loans and other long-term receivables	131	122
Debt issue and reacquisition costs	1,358	1,188
Other deferred charges	<u>1,488</u>	<u>1,610</u>
Total deferred charges and other assets	<b>2,977</b>	2,920
<b>Total assets</b>	<b>\$ 33,241</b>	<b>\$ 33,386</b>
<b>LIABILITIES AND PROPRIETARY CAPITAL</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 380	\$ 493
Accrued liabilities	171	178
Accrued interest	334	464
Short-term debt	3,915	982
Current maturities of long-term debt	<u>1,000</u>	<u>1,000</u>
Total current liabilities	<b>5,800</b>	3,117
<b>Other liabilities</b>	<b>2,207</b>	2,156
<b>Long-term debt</b>		
Public bonds—senior	20,379	23,294
Public bonds—subordinated	1,100	1,100
Unamortized discount and other	<u>(473)</u>	<u>(491)</u>
Total long-term debt	<b>21,006</b>	23,903
<b>Proprietary capital</b>		
Appropriation investment	543	548
Retained earnings	<u>3,685</u>	<u>3,662</u>
Total proprietary capital	<b>4,228</b>	4,210
<b>Total liabilities and proprietary capital</b>	<b>\$ 33,241</b>	<b>\$ 33,386</b>

## Statements of Operations (unaudited)

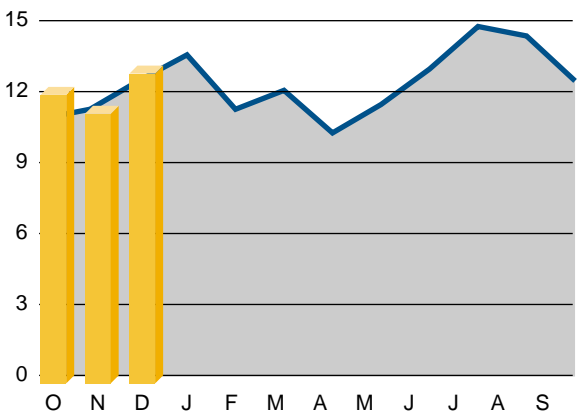
	December 31 1999	December 31 1998
	(MILLIONS)	
<b>Operating revenues</b>		
Sales of electricity		
Municipalities and cooperatives	\$ 1,278	\$ 1,256
Industries directly served	155	143
Federal agencies and other utilities	78	68
Other revenue	<u>17</u>	<u>16</u>
Total operating revenues	<b>1,528</b>	1,483
<b>Operating expenses</b>		
Fuel and purchased power	386	373
Operating and maintenance	305	360
Depreciation and amortization	294	294
Tax-equivalents	77	74
Accelerated amortization	<u>—</u>	<u>217</u>
Total operating expenses	<b>1,062</b>	1,318
<b>Operating income</b>	<b>466</b>	165
Other income (expense), net	<u>3</u>	<u>(2)</u>
Income before interest expense and cumulative effect of change in accounting principle	<b>469</b>	163
<b>Interest expense</b>		
Interest on debt	430	446
Amortization of debt discount, issue, and reacquisition costs, net	20	14
Allowance for funds used during construction	<u>(12)</u>	<u>(8)</u>
Net interest expense	<b>438</b>	452
Cumulative effect of change in accounting principle	<u>—</u>	<u>217</u>
<b>Net Income (loss)</b>	<b>\$ 31</b>	<b>\$ (72)</b>

## Statements of Cash Flows (unaudited)

<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 31	\$ (72)
Net items not requiring cash	326	337
Other changes, net	<u>(72)</u>	<u>(123)</u>
Net cash provided by operations	<b>285</b>	142
<b>Cash flows from investing activities</b>		
Construction expenditures	(203)	(182)
Allowance for funds used during construction	12	8
Other, net	<u>(80)</u>	<u>(111)</u>
Net cash used in investing activities	<b>(271)</b>	(285)
<b>Cash flows from financing activities</b>		
Borrowings, net	16	(185)
Other	<u>(132)</u>	<u>(38)</u>
Net cash used in financing activities	<b>(116)</b>	(223)
<b>Net change in cash and cash equivalents</b>	<b>\$ (102)</b>	<b>\$ (366)</b>

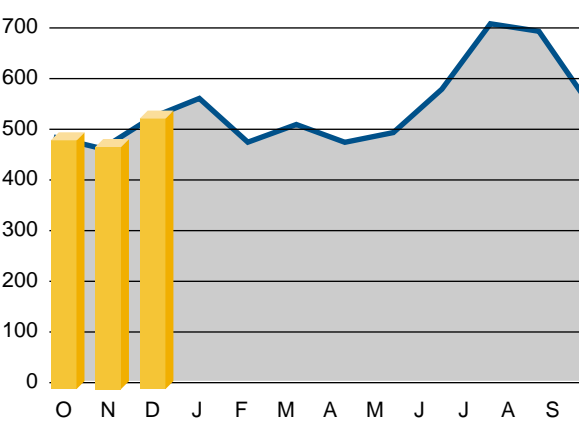
Total TVA Generation

billions of kwh



Total Electric Revenue

millions of dollars



Average Revenue

cents per kwh

